

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MENIFEE COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Menifee County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$2,503 from the prior year, resulting in excess fees of \$3,033 as of December 31, 2006. Revenues increased by \$42,310 from the prior year and expenditures increased by \$39,807.

Debt Obligations:

Lease agreements totaled \$4,097 as of December 31, 2006.

Report Comments:

- 2006-01 The Sheriff Should Comply With The Uniform System Of Accounts
- 2006-02 The Sheriff Should Ensure All Eligible Employees Are Receiving Retirement Benefits
- 2006-03 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Hershell Sexton, Menifee County Judge/Executive
The Honorable Rodney Coffey, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Menifee County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Hershell Sexton, Menifee County Judge/Executive
The Honorable Rodney Coffey, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Sheriff Should Comply With The Uniform System Of Accounts
- 2006-02 The Sheriff Should Ensure All Eligible Employees Are Receiving Retirement Benefits
- 2006-03 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Menifee County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

April 17, 2007

MENIFEE COUNTY
 RODNEY COFFEY, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	9,317
State Grants			25,000
State Fees For Services:			
Finance and Administration Cabinet			59,744
Circuit Court Clerk:			
Sheriff Security Service	\$	1,924	
Fines and Fees Collected		<u>4,210</u>	6,134
Fiscal Court			3,352
County Clerk - Delinquent Taxes			2,066
Commission On Taxes Collected			37,506
Fees Collected For Services:			
Auto Inspections		1,555	
Accident and Police Reports		126	
Serving Papers		6,700	
Carrying Concealed Deadly Weapon Permits		1,875	
Tax Collection Fees		<u>7,547</u>	17,803
Other:			
City of Frenchburg		28,000	
KCPC Transports		294	
Drug Service		4,500	
Miscellaneous		<u>3,865</u>	36,659
Interest Earned			<u>538</u>
Total Revenues			<u>198,119</u>

The accompanying notes are an integral part of this financial statement.

MENIFEE COUNTY
 RODNEY COFFEY, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 89,905

Materials and Supplies-

Office Materials and Supplies 3,099

Other Charges-

Conventions and Travel 300

Dues 300

CCDW 920

Training/Travel Expense 1,755

Miscellaneous 759

Capital Outlay-

Office Equipment 6,285

Vehicles 23,215

Debt Service:

Copier Lease 858

Total Expenditures \$ 127,396

Net Revenues 70,723

Less: Statutory Maximum 64,388

Excess Fees 6,335

Less: Training Incentive Benefit 3,302

Excess Fees Due County for 2006 3,033

Payments to Fiscal Court - April 17, 2007 3,033

Balance Due Fiscal Court at Completion of Audit \$ 0

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Lease

The office of the Sheriff was committed to a lease agreement with Xerox Corporation for a copy machine. The agreement requires a monthly payment of \$95 for 60 months to be completed on April 1, 2010. The total remaining balance of the agreement was \$4,097 as of December 31, 2006.

Note 5. Forest Service Grant

The Meniffee County Sheriff's office entered into a Cooperative Law Enforcement Agreement with the U.S. Department of Agriculture, Forest Service, Daniel Boone National Forest. The purpose of this agreement is to intensify patrolling activities in the Daniel Boone National Forest in an effort to reduce illegal activity on federal land. During calendar year 2006, the Sheriff received reimbursements of \$9,317 for expenditures related to this grant.

Note 6. Forfeiture Account

The Meniffee County Sheriff maintains an account for the purpose of receiving assets forfeited to the Commonwealth of Kentucky as a result of legal proceedings. Expenditures from this fund are to be for law enforcement activities. The beginning balance in the Forfeiture Account was \$443. During calendar year 2006, the Sheriff received \$10,188 in forfeited funds and expended \$3,249, leaving an ending balance of \$7,382 as of December 31, 2006.

Note 7. State Grants

The Meniffee County Sheriff received a Coal Severance Grant from the state in the amount of \$25,000. The grant was used to purchase a vehicle and equipment.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Hershell Sexton, Menifee County Judge/Executive
The Honorable Rodney Coffey, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Menifee County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated April 17, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Menifee County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Menifee County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

2006-03 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

2006-01 The Sheriff Should Comply With The Uniform System Of Accounts

2006-02 The Sheriff Should Ensure All Eligible Employees Are Receiving Retirement Benefits

The Menifee County Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Menifee County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 17, 2007

COMMENTS AND RECOMMENDATIONS

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

2006-01 The Sheriff Should Comply With The Uniform System Of Accounts

The Sheriff's accounting practices and records did not comply with the uniform system of accounts, adopted under KRS 68.210. The following deficiencies were noted.

- The Sheriff's receipts were not batched and deposited daily. We found instances where receipts were deposited up to one month late.
- The Sheriff did not properly reconcile the bank balance to the ledgers monthly. Also, the Sheriff's fourth quarter report did not reconcile to the year-end bank balance.
- The Sheriff did not maintain a formal disbursements ledger. The bookkeeper classified the disbursements on the check stubs in the checkbook in order to include on the Sheriff's quarterly financial reports.

We recommend the Sheriff improve these areas to comply with the uniform system of accounts.

Sheriff's Response:

Will try to correct in future.

2006-02 The Sheriff Should Ensure All Eligible Employees Are Receiving Retirement Benefits

During our test procedures for payroll, we found that four employees of the Sheriff's office met the requirements to be eligible for retirement benefits but were not receiving these benefits. KRS 78.610 outlines provisions for retirement benefits. All employees who work an average of 100 hours per month or more must participate in the County Employees' Retirement System (CERS) regardless of the employees' classification of part-time or full-time. Participation in CERS would require the employer to withhold 5% (8% for hazardous duty employees) of the employees' gross wages and provide matching funds of various percentages (currently 13.19% for non-hazardous duty employees and 28.21% for hazardous duty employees). The fiscal court is responsible for the Sheriff's payroll, therefore, we recommend that the Sheriff ensure the fiscal court is aware of the requirements of KRS 78.610 and ensure that all eligible employees are receiving retirement benefits. We are referring this matter to the County Employees' Retirement System.

Sheriff's Response:

Employees working over 100 hours are currently being paid retirement benefits starting in 2007.

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

2006-03 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

During our testing, we noted the following:

- (1) The employee that records cash receipts in the receipts ledger also prepares the cash deposits.
- (2) The bookkeeper prepares, posts, and mails all checks.

Additionally, per comment 2006-01, a formal disbursements ledger is not maintained and bank reconciliations are not prepared in accordance with the uniform system of accounts.

If proper segregation of duties does not exist over receipt and disbursement functions within the Sheriff's office, it increases the risk that errors or fraud may occur and not be detected. We recommend the Sheriff comply with the Uniform System of Accounts as stated in finding 2006-01. We also recommend the Sheriff segregate the duties over receipt and disbursement functions or implement the following compensating controls to offset the risk:

- (1) The Sheriff or another independent person recount the daily cash deposits and agree to the daily cash checkout sheet and receipts ledger.
- (2) The Sheriff or another independent person review all checks prepared to original invoices and the disbursements ledger.
- (3) The Sheriff or another independent person compare bank reconciliations to the receipts and disbursements ledgers.

Sheriff's Response:

Sheriff will review and try to make as much correction as possible with our current staff size.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

